

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE MAGOFFIN	)	
COUNTY WATER DISTRICT, A WATER	)	
DISTRICT ORGANIZED PURSUANT TO	)	
CHAPTER 74 OF THE KENTUCKY	)	
REVISED STATUTES, OF MAGOFFIN	)	
COUNTY, KENTUCKY, FOR (1) A CER-	)	
TIFICATE OF PUBLIC CONVENIENCE	)	
AND NECESSITY, AUTHORIZING AND	)	
PERMITTING SAID WATER DISTRICT	)	
TO CONSTRUCT A NEW WATERWORKS	)	
DISTRIBUTION SYSTEM, CONSISTING	)	CASE NO. 9108
OF A PUMPING STATION AND THE	)	
NECESSARY DISTRIBUTION SYSTEM AND	)	
LINEs NEEDED TO SERVE WATER TO	)	
SAID DISTRICT; (2) APPROVAL OF	)	
THE PROPOSED PLAN OF FINANCING OF	)	
SAID PROJECT; AND (3) APPROVAL OF	)	
THE WATER RATES PROPOSED TO BE	)	
CHARGED BY THE DISTRICT TO	)	
CUSTOMERS OF THE DISTRICT	)	

O R D E R

The Magoffin County Water District ("Magoffin") filed an application on July 24, 1984, for the establishment of initial water service rates, authorization to construct a \$1,860,100 waterworks project, and approval of its financing for the proposed project. Magoffin's financing includes \$53,100 from applicants for service in the proposed project area, a loan of \$325,000 from the Farmers Home Administration ("FmHA") at 7 1/8 percent interest, a grant of \$582,000 from the Department of Housing and Urban Development, a

grant of \$700,000 from the Appalachian Regional Commission and a grant of \$200,000 from the Economic Development Administration. Magoffin will issue waterworks revenue bonds as security for the FmHA loan. The repayment period for the loan will be 40 years.

The proposed construction project will provide water service to about 531 applicants for water service. Plans and specifications for this project as prepared by Mayes, Sudderth and Etheredge, Inc., of Lexington, Kentucky, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

A hearing was held in the offices of the Public Service Commission, Frankfort, Kentucky, on November 15, 1984. There were no intervenors, and no protests were entered.

#### TEST PERIOD

Magoffin, is a proposed rather than a currently operating utility and, accordingly no historical financial data exists to serve as a basis for a test period. Therefore, estimated pro forma operating expenses have been utilized in the determination of Magoffin's revenues requirements.

#### REVENUES AND EXPENSES

Magoffin proposed revenues and expenses for its initial operations based on serving 531 customers during the first year of operation which the Commission has accepted.

These expenses consisted of \$42,445 for a Water Resources Assistance Corporation ("WRAC") contract whereby WRAC would be responsible for the operation of the utility, connecting customers, reading the meters, preparing and sending bills, collecting revenues, making repairs, water sampling, keeping financial records, making reports to regulatory and funding agencies and other services as set out in the contract; \$35,770 for purchased water, including a 15 percent allowance for water loss; \$3,040 for depreciation, excluding contributed property; \$29,983 for debt service including a 1.2X average and other transmission, distribution and operating expenses for a total proposed operation and maintenance expense of \$121,110. Revenues from water operations are projected to be \$121,253 for the first year of operation as shown in Exhibit L. It is the Commission's opinion that this level of revenue is adequate to meet the projected level of operating expenses and debt requirements.

#### SPECIAL CHARGES

Magoffin proposed to establish a service connection charge for 5/8-inch x 3/4-inch connections in the amount of \$300. Cost data filed by Magoffin show that \$300 is the reasonable rate to be charged and should be approved for service connections using a 5/8-inch meter. The Commission is of the opinion that because of the fluctuation in costs for larger meters, charges for meters 1-inch or larger should be the actual cost of materials and installation.

Magoffin proposed to establish a meter test request charge in the amount of \$20, a meter reading check charge of \$11, and a reconnection and disconnection charge of \$15. The Commission is of the opinion that the cost data filed by Magoffin adequately justify the proposed charges and that they should be approved.

#### FINDINGS AND ORDERS

The Commission, after consideration of the application and evidence of record and being advised, is of the opinion and finds that:

1. Public convenience and necessity require that the construction proposed in the application and record be performed and that a certificate of public convenience and necessity be granted.

2. The proposed water distribution system construction includes two 100,000-gallon water storage tanks, two booster pump stations, 531 residential service connections, approximately 30 miles of 6-inch, 4-inch, 3-inch and 2-inch PVC water mains and miscellaneous appurtenances. Certain lengths of the 2-inch diameter pipe must, however, be changed to pipe of not less than 3-inch diameter for compliance with Section 11 of 807 KAR 5:066. Section 11 limits the construction of 2-inch dead-end pipe to 250 feet. A change should be made at two locations: (1) plan sheet 11 of Contract 1 shows 265 feet of 2-inch dead-end pipe connected to the 6-inch Bradley water tank main; (2) plan sheet

10 of Contract 2 shows 650 feet of 2-inch dead-end pipe on an unnamed street in the community near the junction of KY 7 and KY 867. The Commission's approval of construction requires these changes in pipe size.

3. Any deviation from the construction herein approved which could adversely affect service to any customer is subject to the prior approval of this Commission.

4. The \$1,363,769 total of the low bids for the construction work approved herein is approximately \$78,000 under the Engineer's final estimate of \$1,441,700. Magoffin should, therefore, be planning to proceed with additional construction following completion of the work approved herein. Magoffin should utilize its contingency fund balance and the \$78,000 previously mentioned to cover the cost of its additional construction. Magoffin is reminded that this Commission's approval of its additional construction is required before construction work thereon is begun.

5. Magoffin's \$1,860,100 plan of financing for utility construction work is hereby approved. The proposed borrowing of \$325,000 is for lawful objects within the corporate purposes of Magoffin, is necessary and appropriate for and consistent with the proper performance of services to the public by Magoffin and will not impair its ability to perform these services.

6. The Commission has reviewed all proposed special charges, as set out in the special charges section of this

Order, and finds that the proposed charges should be approved.

IT IS THEREFORE ORDERED that Magoffin be and it hereby is granted a certificate of public convenience and necessity for the construction set forth in the plans and specifications of record herein approved with the stipulations of finding number 2 for upsizing of small diameter pipe.

IT IS FURTHER ORDERED that Magoffin shall file with the Commission duly verified documentation which shows the total costs of construction including all capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed. These costs shall be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Water Utilities prescribed by this Commission.

IT IS FURTHER ORDERED that Magoffin's contract with the Engineer shall require the provision of full-time resident inspection under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering. The supervision and inspection shall insure that the construction work is done in accordance with the contract plans and specifications and in conformance with the best practices of the construction trades involved in the project.

IT IS FURTHER ORDERED that Magoffin shall require the Engineer to furnish a copy of the record plans and a signed statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the date of substantial completion of this construction.

IT IS FURTHER ORDERED that a 5/8-inch x 3/4-inch meter shall be the standard service meter and shall be installed at all points of service unless the customer provides sufficient justification for the installation of a larger meter.

IT IS FURTHER ORDERED that Magoffin shall file with the Commission a copy of all contractual agreements for the provision of services or the purchase of services which are subject to the approval of this Commission.

IT IS FURTHER ORDERED that the proposed special charges, as set out in the special charges section of this Order, be and they hereby are approved.

IT IS FURTHER ORDERED that the rates and charges in Appendix A be and they hereby are approved for service rendered on and after the date of this Order.


IT IS FURTHER ORDERED that within 30 days from the date of this Order, Magoffin shall file tariff sheets setting out its rules and regulations and the rates and charges approved herein.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein authorized.

Done at Frankfort, Kentucky, this 21st day of December, 1984.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

\_\_\_\_\_  
Secretary



APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 9108 DATED December 21, 1984.

The following rates are prescribed for the customers  
in the area served by Magoffin County Water District:

RATES: Monthly

5/8-Inch x 3/4-Inch Connection

First	2,000 gallons	\$10.90 Minimum Bill
Next	3,000 gallons	4.50 per 1,000 gallons
Next	5,000 gallons	4.00 per 1,000 gallons
Over	10,000 gallons	3.40 per 1,000 gallons

1-Inch Connection

First	5,000 gallons	\$24.40 Minimum Bill
Next	5,000 gallons	4.00 per 1,000 gallons
Over	10,000 gallons	3.40 per 1,000 gallons

2-Inch Connection

First	15,000 gallons	\$61.40 Minimum Bill
Over	15,000 gallons	3.40 per 1,000 gallons

Non-Recurring Charges

Meter Reading Check Charge	\$11.00
Meter Test Request Charge	20.00
Disconnect/Reconnect Charge	15.00